

Piedmont Natural Gas Company, Inc.
***Annual Review of Purchased Gas
Adjustment and Gas Purchasing Policies***

Docket No. 2004-4-G

***Direct Testimony
Brent L. Sires
Utilities Department***

Public Service Commission of South Carolina

1 **Q. WOULD YOU PLEASE STATE FOR THE RECORD YOUR NAME,**
2 **BUSINESS ADDRESS AND OCCUPATION?**

3 **A.** Brent L. Sires, 101 Executive Center Dr., Columbia, South Carolina. I am employed
4 by the Public Service Commission of South Carolina, Utilities Department, as Chief
5 of Gas.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
7 **EXPERIENCE.**

8 **A.** I received a Bachelor of Science Degree, Majoring in Marketing and Management,
9 from the University of South Carolina and have been employed by this Commission
10 since 1980. I am also recognized as a Certified Public Manager, a nationally
11 accredited management development program for public managers in South
12 Carolina.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 **A.** On April 6, 1988, the Public Service Commission of South Carolina issued its Order
16 No. 88-294 which requires the annual review of the Purchased Gas Adjustment
17 (PGA) and Gas Purchasing Policies of Piedmont Natural Gas Company. The
18 purpose of my testimony is to present to the Commission the Utilities Department's
19 findings and recommendations resulting from its analysis of Piedmont Natural Gas
20 Company's (Piedmont) Purchased Gas Adjustment (PGA) tariff and Gas Purchasing
21 Policies for the period April 2003 through March 2004.

1 **Q. HAS PIEDMONT COMPLIED WITH COMMISSION ORDERS THAT SET**
2 **FORTH THE MANNER IN WHICH THE COMPANY IS TO OPERATE ITS**
3 **PGA?**

4 **A.** Yes. The Utilities Department has found that the Company's PGA is being operated
5 in compliance with the Commission's Orders issued in Docket No. 83-126-G,
6 86-217-G, 95-160-G, 96-514-G and Docket No. 98-004-G.

7 **Q. MR. SIRES, IS THE UTILITIES DEPARTMENT RECOMMENDING ANY**
8 **CHANGE IN THE \$5.75 PER DEKATHERM BENCHMARK COST OF GAS**
9 **PRESENTLY INCLUDED IN THE COMPANY'S RATES?**

10 **A.** No, Staff is not recommending any change. As of May 31, 2004 Piedmont has
11 reported to us a credit balance in its 253.04 deferred account of \$378,643.26. A
12 credit balance means a balance that is due to customers from the Company.

13 **Q. HOW DOES THE COMPANY'S PURCHASED GAS ADJUSTMENT AND**
14 **INDUSTRIAL SALES PROGRAM COMPARE TO THOSE OF THE OTHER**
15 **GAS UTILITIES UNDER THE COMMISSION'S JURISDICTION?**

16 **A.** Piedmont's PGA and Industrial Sales Program are somewhat different than those in
17 operation for our other gas utilities. The major difference is Piedmont has the
18 opportunity to recover all negotiated losses from its competitive industrial
19 customers. Piedmont utilizes Rate Schedule 208 (Exhibit BLS-1, Attached) to
20 provide negotiated sales or transportation service to customers that would otherwise
21 utilize alternate fuels because the maximum published rates may not be competitive
22 at times. For the review period, negotiated losses totaled \$3,131,538 as identified in

1 Audit Exhibit A-1. Due to the opportunity Piedmont has to recover negotiated losses
2 from the deferred account, it is imperative that Piedmont negotiate its rate to
3 industrial customers only to the level that is competitive with the alternative fuel
4 prices without going below the Company's actual cost of the gas. Piedmont utilizes
5 its monthly weighted average cost of gas (WACOG) as the basis for negotiations of
6 monthly sales service and will not negotiate a sales price that is lower than the
7 WACOG.

8 **Q. YOU INDICATE THAT PIEDMONT'S PGA AND INDUSTRIAL SALES**
9 **PROGRAM PROVIDES THE COMPANY THE OPPORTUNITY TO**
10 **RECOVER ITS NEGOTIATED LOSSES FROM THE DEFERRED**
11 **ACCOUNT. FROM YOUR REVIEW OF THIS PROCESS DURING THE**
12 **REVIEW PERIOD, DID YOU FIND THAT THE COMPANY HAS BEEN**
13 **NEGOTIATING A PRICE WITH THE INDUSTRIAL CUSTOMER ONLY**
14 **TO THE LEVEL WHICH IS COMPETITIVE WITH THE ALTERNATE**
15 **FUELS AND NOT BELOW THEM?**

16 **A.** Yes. When Piedmont is negotiating its rate to compete with alternate fuels, the
17 Company ensures three objectives are met. These are:

- 18 • The quoted rate does not undercut the cost of the alternate fuel
- 19 • The most accurate market prices are utilized for both alternate fuels and natural
- 20 gas
- 21 • Negotiating the highest possible margin

22 The first step to ensure that Piedmont does not undercut alternate fuel prices is to
23 identify the reasonable range of costs for specific alternate fuels early in the
24 negotiation process. A number of oil prices are identified by Piedmont's account

1 representatives and entered into an online database. Both Piedmont management
2 and account representatives have real time access to these oil prices in a format that
3 allows the comparison of prices from various customers and various locations across
4 the service area. The comparison of these customer alternate fuel costs allows
5 Piedmont to identify the range of market prices of various types of oil and to
6 identify customer submitted oil prices that do not fall in an expected cost range.
7 Piedmont contacts these customers again and requests verification of oil prices when
8 the prices supplied by the customer are lower than expected.

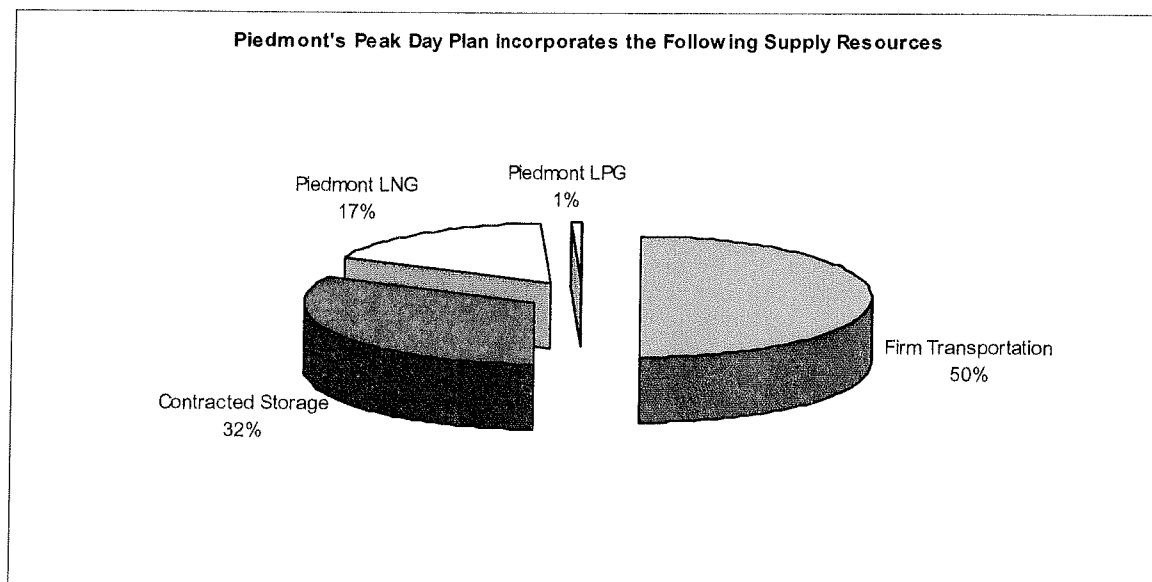
9 Additional resources are available to identify the market pricing for oil. These
10 resources include various Internet sites such as the Energy Information
11 Administration, NYMEX, Amerada Hess, WTRG Economics, Industrial Fuel,
12 Online Energy, Horizon Energy, and Oil Energy.

13 When Piedmont is negotiating its transportation rate, Piedmont utilizes two sources
14 to understand the market cost of gas provided by a third party marketer. These
15 sources include NYMEX for the commodity cost and internal gas supply personal to
16 identify a reasonable basis cost. If the Company thinks quoted total delivered price
17 for natural gas is excessive, the Company will offer a negotiated price based on what
18 the company thinks is reasonable.

19 It is important to understand that Piedmont's approved negotiating process does not
20 allow the Company to retain all loads each month, but it does allow the Company
21 the opportunity to provide natural gas sales and transportation service to avoid loss
22 sales in the market place.

1 **Q. WITH ALL THE SPOT MARKET GAS AVAILABLE TODAY, IS IT YOUR**
2 **OPINION THAT PIEDMONT IS PRUDENT WHEN MAKING PURCHASES**
3 **OF GAS THROUGH LONG TERM CONTRACTS WITH SUPPLIERS?**

4 **A.** Yes. Piedmont must meet the demands of its firm customers on a peak day.
5 Piedmont relies on firm contracted quantities as well as firm transportation capacity
6 on the Transco and Columbia Gas Transmission systems to meet its firm
7 obligations. Shown below and detailed in Exhibit BLS-2 are the supply resources
8 available to Piedmont to meet its design day.



9
10 It is very important that the volumes of gas needed for that peak day are available for
11 the firm class of customers. It would be imprudent to plan for interruptible supplies
12 to serve the Company's firm customers on a peak day. Natural gas customers, who
13 utilize natural gas for heating their homes, cooking, water heating and other
14 essential needs, expect the natural gas supply to be available. These firm customers

1 have no alternate fuel capability and must have natural gas available 365 days a
2 year.

3 **Q. WHAT DEMAND ENTITLEMENTS DOES PIEDMONT HAVE WITH ITS**
4 **SUPPLIERS?**

5 **A.** Piedmont for the winter period 2003-2004 had firm demand entitlements and
6 peaking capabilities with Transco and other suppliers totaling 1,350,633
7 dekatherms. Under the Firm Transportation Service (rate schedule FT) from
8 Transco, Piedmont is able to take advantage of market responsive priced gas which
9 enables Piedmont to minimize its gas costs. Piedmont has contracted storage service
10 on the Transco and Columbia gas systems. Additionally, Piedmont has its own
11 Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG) facilities
12 available along with its contracted storage to flow additional volumes into the
13 system when needed and to balance flowing supplies with system load requirements.
14 Attached are Exhibits BLS-3 through BLS-14. These exhibits identify for the twelve
15 month period ending March 31, 2004, Piedmont's activity with regard to its storage
16 arrangements. Following is a description of Piedmont's storage services, their
17 locations, and how the services provide natural gas to Piedmont's city gate.
18 WSS (Washington Storage Service) is a conventional gas storage field in Louisiana
19 (at Transco's Station 54). It is a discrete facility and service, so it requires separate
20 transportation service to move gas to or from the WSS site. Typically, Piedmont
21 will use WSS as (1) a backup supply in case flowing supply is interrupted, (2)
22 additional swing supply (Piedmont will dedicate a small piece of FT to be able to
23 move gas from WSS to their gate in order to swing on it), and (3) a place to inject

1 gas if Piedmont is long on Transco (e.g., warm winter weekends when consumption
2 levels fall below the level of firm base gas supply they have secured for the month).

3
4 ESS Storage:

5 Eminence Storage Service - Covington County, Mississippi - Salt storage peaking
6 facility. Used as to back up supply in case of flowing supply outages. Can only
7 move to PNG city gates via PNG owned firm transportation capacity contracts on
8 Transco.

9
10 Columbia Gas Storage:

11 (Firm Storage Service - Winter storage service on the Columbia Gas Transmission
12 Company Pipeline (TCO). Columbia has various storage fields in Virginia, West
13 Virginia and Pennsylvania supporting the service. Storage withdrawals must move
14 PNG owned firm transportation capacity contract on TCO (companion SST
15 contracts) to an interconnect with TCO called Boswell Tavern then backhauled on
16 PNG owned firm transportation capacity contracts on Transco to PNG city gates.

17
18 LGA Storage:

19 Liquefied Natural Gas Storage Service - Carlstadt, NJ. Bundled storage
20 peaking/transportation service; Transco delivers withdrawals at PNG city gates.

21
22 LNG:

23 Local PNG-owned liquefied natural gas facility. Located in Charlotte, North
24 Carolina. LNG injected into the PNG, NC system displaces volumes on Transco into
25 SC. LNG use benefits entire Carolinas system.

26
27 Hattiesburg Storage:

28 Located in Hattiesburg, Mississippi. Withdrawals move via PNG-owned firm
29 transportation capacity contracts on Transco to PNG city gates.

1 Pine Needle LNG:

2 Located between Greensboro and Reidsville, NC on the Transco System -
3 Backhauled on PNG-owned firm transportation capacity contracts on Transco to
4 PNG city gates.
5

6 Leidy/GSS:

7 The Liedy Line is a Transco owned pipeline connecting GSS storage from
8 Leidy/Wharton area in Pennsylvania. Transco's GSS is a bundled
9 storage/transportation service consisting of and supported by Transco contracts with
10 Dominion and National Fuel pipelines, with the receipt/delivery point located in the
11 Leidy/Wharton area where the three pipelines interconnect. Withdrawals are
12 delivered by Transco to PNG city gates.
13

14 **Q. ARE PIEDMONT'S CONTRACT DEMAND ENTITLEMENTS AND ITS**
15 **PEAKING CAPABILITIES SUFFICIENT TO MEET THE**
16 **REQUIREMENTS OF ITS FIRM CUSTOMERS?**

17 **A.** Yes. For the winter period ending March 31, 2004, Piedmont had firm demand
18 entitlements with suppliers and peaking capabilities of 1,350,633 dekatherms. A
19 comparison of Piedmont's demand entitlements with suppliers and peaking
20 capabilities totaling 1,350,633 dekatherms to the Design Day demand requirements
21 of 1,265,232 dekatherms indicates the Company had adequate firm supplies to meet
22 its firm customer's requirements. However, Staff recommends that the Company
23 continue to monitor its firm supply capabilities very closely, especially with regard
24 to future growth on the system and the many changes being experienced in the
25 natural gas industry.

1 **Q. IS IT YOUR OPINION THAT THE COMPANY IS ACTING PRUDENTLY**
2 **IN ARRANGING FOR SUPPLIES TO MEET THE REQUIREMENTS OF**
3 **ITS FIRM CUSTOMERS TODAY AS WELL AS IN THE FUTURE?**

4 **A.** Yes. Piedmont has the responsibility to provide adequate natural gas supplies to
5 meet the daily and peak day requirements of its firm customers. Changes continue
6 to occur in the natural gas industry. Local distribution companies (LDC's) are
7 purchasing gas supplies directly on the spot market and making arrangements
8 through interstate pipelines for the delivery of the supplies. Piedmont has been very
9 active in this role, and it is my opinion that Piedmont should continue its active role
10 in the spot market. Piedmont has utilized the changes taking place in the gas
11 industry to maximize through put and load factor on its natural gas system. Both of
12 these actions reduce the overall cost of gas to the company's natural gas customers.
13 It is my opinion, based on the current status of the natural gas industry that the spot
14 market continues to play a vital role in providing LDC's natural gas supplies at
15 prices competitive with the industrial alternate fuels as well as reducing costs to high
16 priority customers. I have reviewed the Company's forecasted future demand
17 requirements and the steps they are taking to insure the reliability of these supplies.
18 Piedmont has taken a number of steps in securing firm supplies for future demand
19 on its system. These steps range from negotiating with pipelines for capacity on the
20 interstate systems to acquiring additional storage capacity to negotiating contracts
21 with suppliers for back-haul gas.

1 In conclusion, my observations of Piedmont's gas purchasing policies indicate that
2 Piedmont is continuing its attempts to get the best terms available in its negotiations
3 with suppliers and in proceedings with the FERC. Piedmont has an obligation to
4 maintain adequate supplies at just and reasonable costs to serve its customers. I
5 found that the Company is meeting this responsibility.

6 **Q. PLEASE DESCRIBE THE WEATHER NORMALIZATION (WNA)**
7 **CONCEPT.**

8 **A.** In the past few years, South Carolina has experienced some very mild winters. In
9 fact, when Piedmont Natural Gas Company filed a general rate case in 1991, the test
10 year was warmer than normal. A determining factor in the Company filing for rate
11 relief was lower sales, due to the abnormally warm temperatures during the 1990-
12 1991 winter heating season. In a traditional rate proceeding, the required revenue is
13 divided by the actual therms sold during the year to determine a rate per unit sold.
14 Since the amount of therms sold was abnormally low due to warm weather, the rate
15 per therm would have been high. If the resulting winter weather had been normal or
16 abnormally cold, then the Company would have billed its customers too much. The
17 Weather Normalization Adjustment was viewed as a fairer way to recover costs.
18 Implementation of a WNA tracker on the Piedmont system occurred during the
19 winter of 1993. The WNA adjusts that part of the rate that covers everything except
20 the cost of purchased gas upward or downward to allow the Company the
21 opportunity to recover the cost of doing business. The WNA is only applied to the

November through March billing months. The WNA adjusts rate revenue downward in colder than normal weather and upward in warmer than normal weather.

During the five winter months November 2003 through March 2004 inclusive, the calendar month November was 35.26% warmer than normal, December 4.50% warmer, January 4.87% warmer, February 10.27% colder, and March 1.15% warmer. Following is the WNA formula and description of.

The Weather Normalization Adjustment shall be computed to the nearest one-thousandth cent per therm by the following formula:

$$WNA_i = R_i * \frac{(HSF_i (NDD-ADD))}{(BL_i + (HSF_i * ADD))}$$

Where:

i = any particular rate schedule or billing classification within any particular rate schedule that contains more than one billing classification.

WNA_i = Weather Normalization Factor for the i^{th} rate schedule or classification expressed in cents per therm.

R_i = base rate (approved rate less cost of gas) for the i^{th} schedule or classification utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues.

HSF_i = heat sensitive factor for the i^{th} schedule of classification utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues.

NDD = normal billing cycle heating degree days utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues.

ADD = actual billing cycle heating degree days.

BL_i = base load sales for the i^{th} schedule or classification utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues.

1 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

2 A. Yes, it does.

Piedmont Natural Gas Company, Inc.

P.S.C.S.C. Tariff

RATE SCHEDULE 208
NEGOTIATED SERVICE

Applicability and Character of Service

On occasions, the Company may have gas that it cannot sell or transportation service that it cannot provide pursuant to its rate schedules because its maximum rates are not competitive with alternate fuels or energy sources. On such occasions, a service opportunity is lost to the Company and to its Customers. This Rate Schedule is designed to permit the Company to provide services at negotiated rates.

Gas service under this Rate Schedule is available on a limited term basis to all non-residential Customers in the area served by the Company in the State of South Carolina who receive services under the Company's Rate Schedules 202, 232, 252, 262, 242, 203, 213, 204 or 214. The Company may provide negotiated transportation and sales service to Customers who receive service under Rate Schedule 214 in order to compete with alternate fuels or energy sources. Unless otherwise agreed to by the Company, service under this Rate Schedule is interruptible and the Company has the right to discontinue such service on one hour's notice.

Rate

The rate to be charged for gas service pursuant to this Rate Schedule is subject to negotiation between the Customer and the Company.

Payment of Bills

Bills are net and due upon receipt. Bills become past due 15 days after bill date.

Late Payment Charge

A late payment charge of one and a half percent (1 ½%) per month will be applied to all balances not paid prior to the next month's billing date.

Service Interruption and Curtailment

Gas service under this Rate Schedule is subject to the provisions contained within Rate Schedule 206, "Schedule for Limiting and Curtailing Service".

Applicable Documents Defining Obligations of the Company and Its Customers

Service under this rate schedule is subject to the Rules and Regulations of the Public Service Commission of South Carolina ("Commission Rules") and to the Company's Service Regulations. Among other things, the Commission Rules and the Company's Service Regulations permit the interruption or curtailment of service under certain conditions, including events of *force majeure* and operating conditions. A copy of the Commission's Rules may be obtained from the Public Service Commission of South Carolina, 101 Executive Center Dr., Columbia, SC 29210, upon payment of the applicable fee. The Company's Service Regulations may be obtained at each of the district offices of the Company. Unofficial copies of the Company's Service Regulations are available at the Company's Web Site at www.piedmontng.com.

APPROVED FOR FILING
 THE PUBLIC SERVICE COMMISSION
 OF SOUTH CAROLINA

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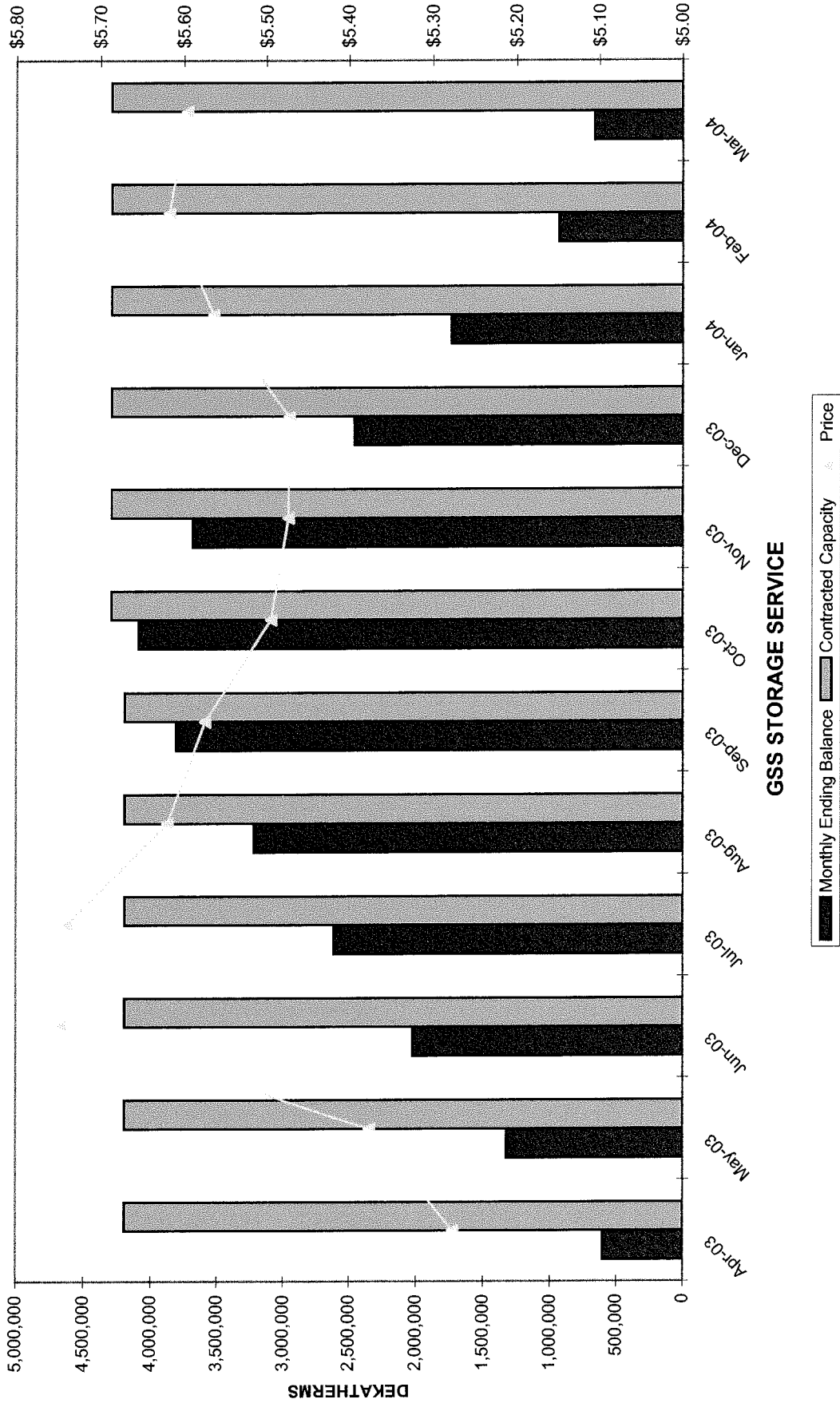
Issued by Ware F. Schiefer, Chief Executive Officer
 Issued: November 1, 2002
 Docket No. 2002-63-G
 Effective: November 1, 2002

James E. Walsh
 EXECUTIVE DIRECTOR

Supply

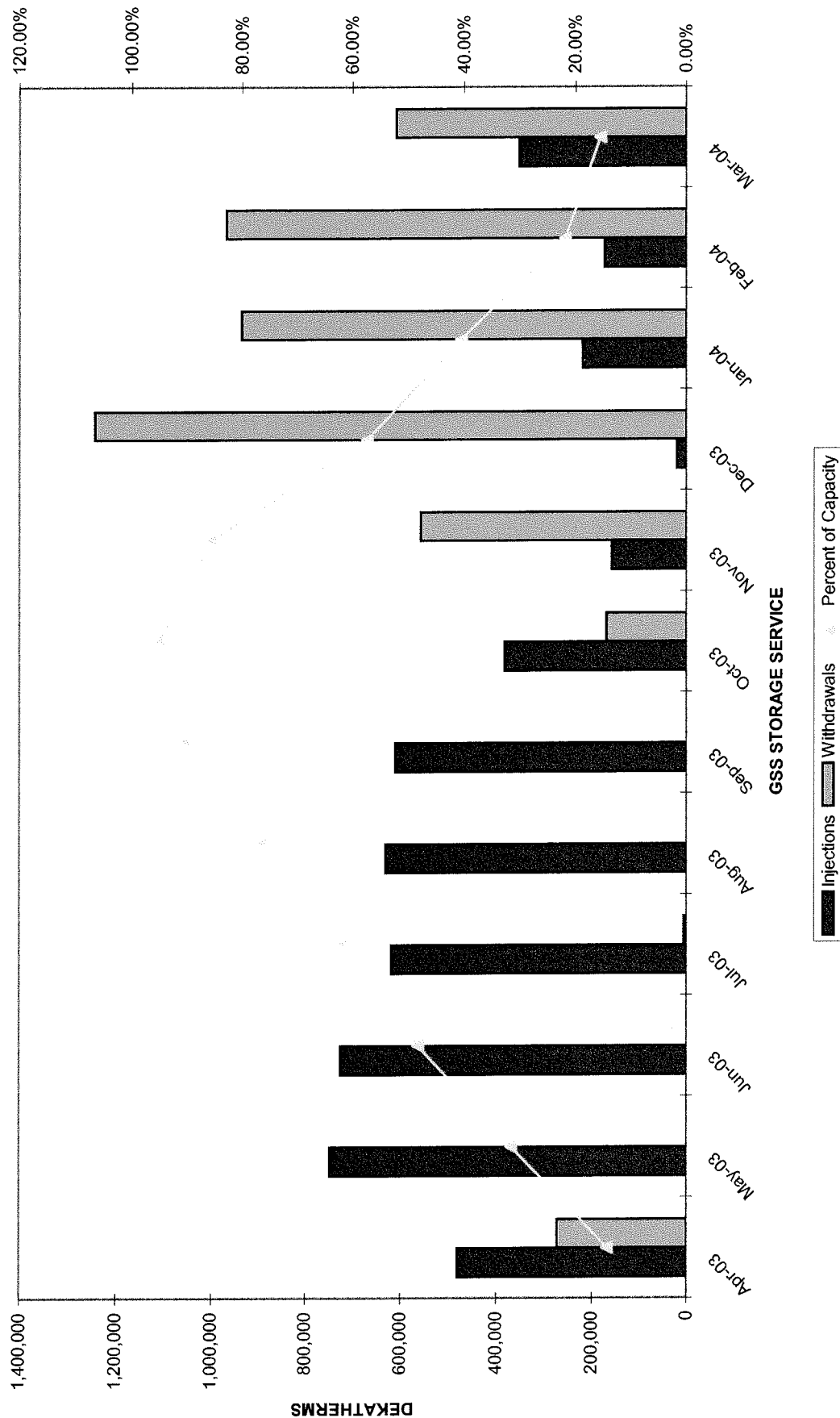
<u>Firm Supplies</u>		<u>Days</u>	<u>Dekatherms</u>
Transco	FT	365	376,097
	FT Incremental	365	6,440
	FT PS Conversion	90	6,314
	FT Southern Expansion	151	72,502
	FT SE '94	365	21,829
	FT SE '95/'96	365	107,656
	GSS Storage	56	71,368
	GSS Storage	53	2,743
	GSS Storage	48	3,364
	LGA	5	8,643
	Sunbelt	365	41,400
<i>Transco Total</i>			718,356
Columbia Gas			
	FTS	365	32,801
	NTS	365	10,000
	FSS/SST	60	37,000
		43	5,199
	FSS/SST Mkt Exp'97	60	25,000
	FSS/SST Mkt Exp'98	60	19,169
<i>Columbia Gas Total</i>			129,169
<i>Firm Supplies Total</i>			847,525
<u>Peaking Supplies</u>			
	Piedmont LNG	10	229,200
	Piedmont LPG	10	10,508
	Pine Needle	10	263,400
<i>Peaking Supplies Total</i>			503,108
<u>Supply Total</u>			<u>1,350,633</u>

TRANSCO STORAGE ANALYSIS
CAPACITY, ENDING BALANCE & PRICE

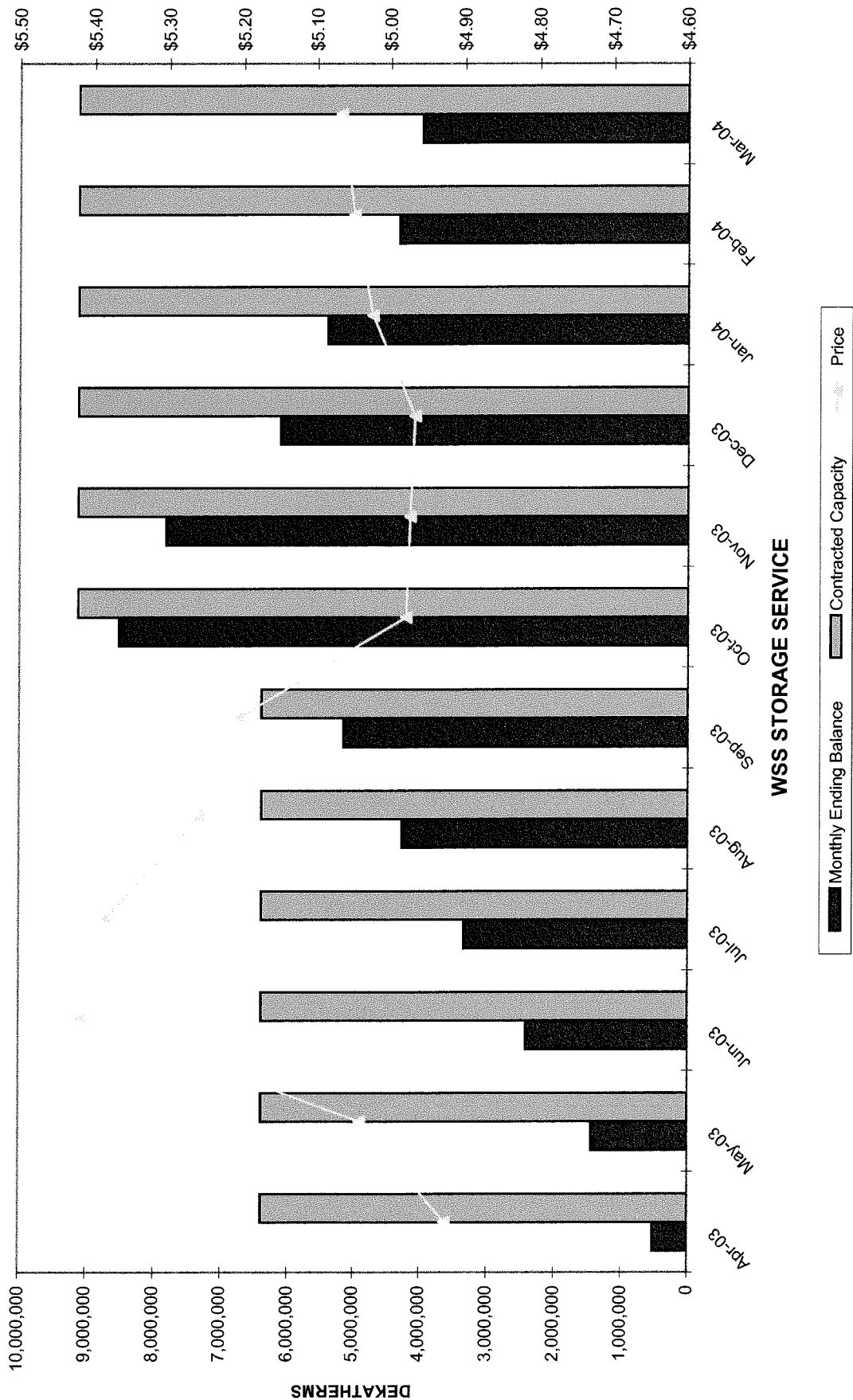


TRANSCO STORAGE ANALYSIS

INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY

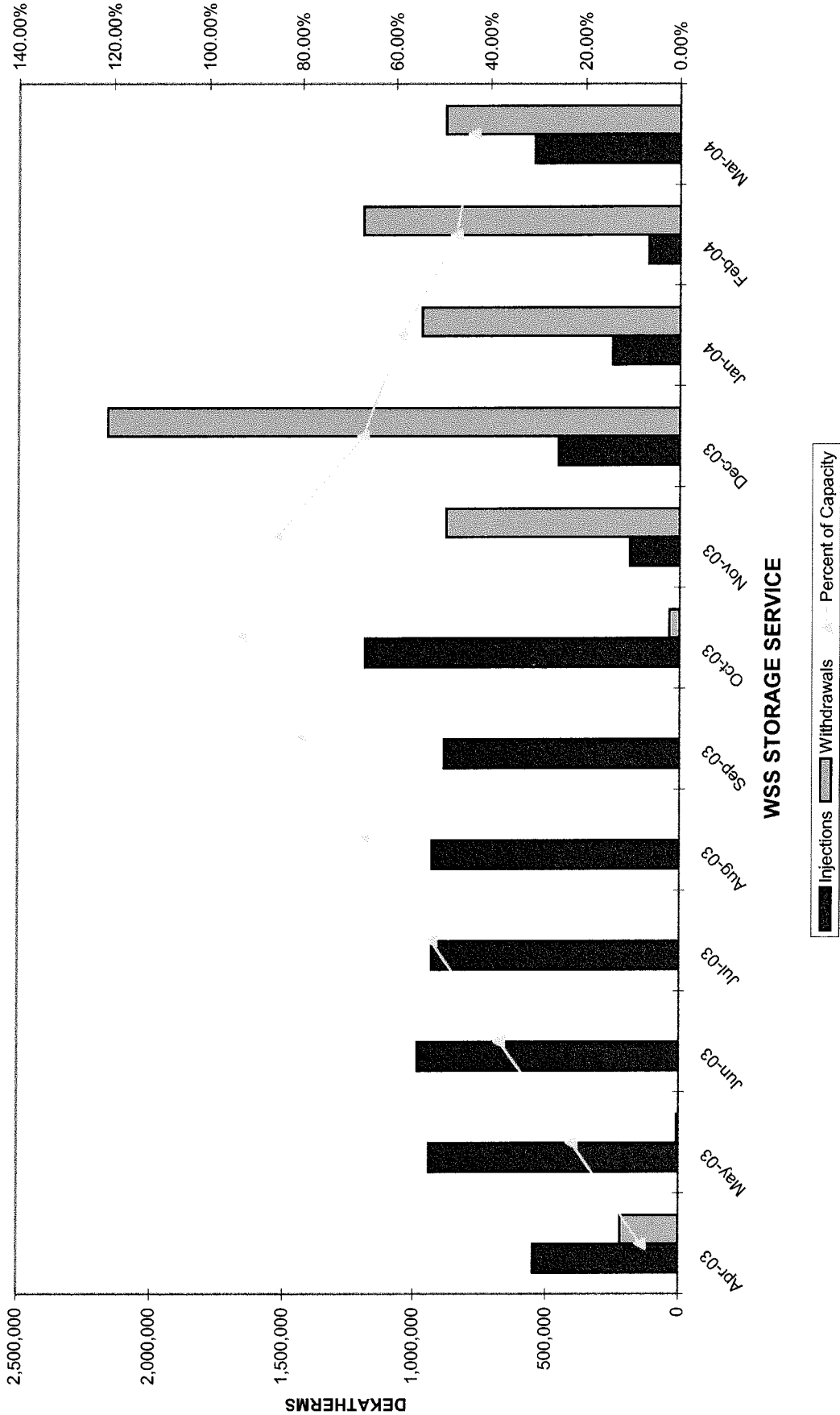


TRANSCO STORAGE ANALYSIS
CAPACITY, ENDING BALANCE & PRICE

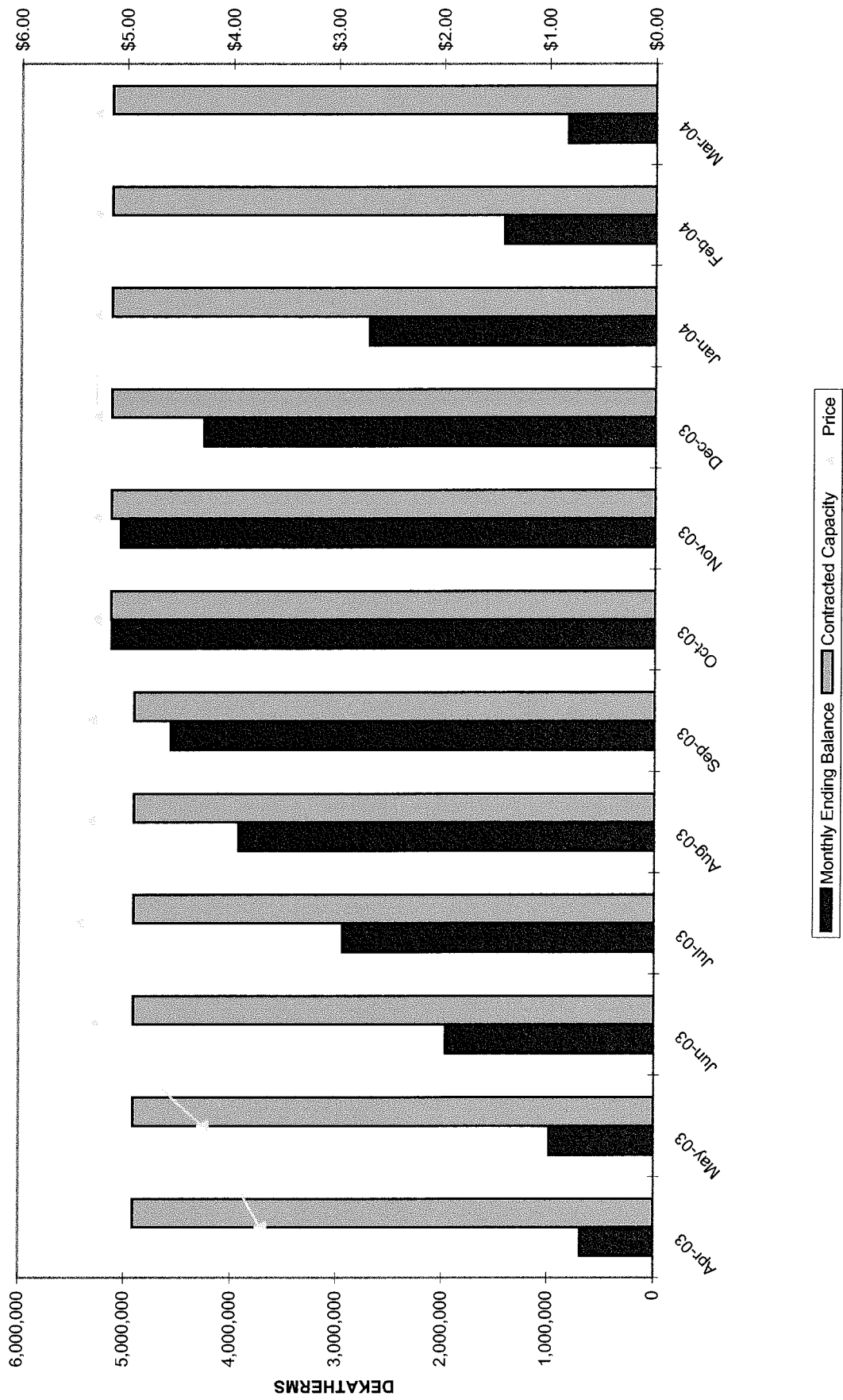


TRANSCO STORAGE ANALYSIS

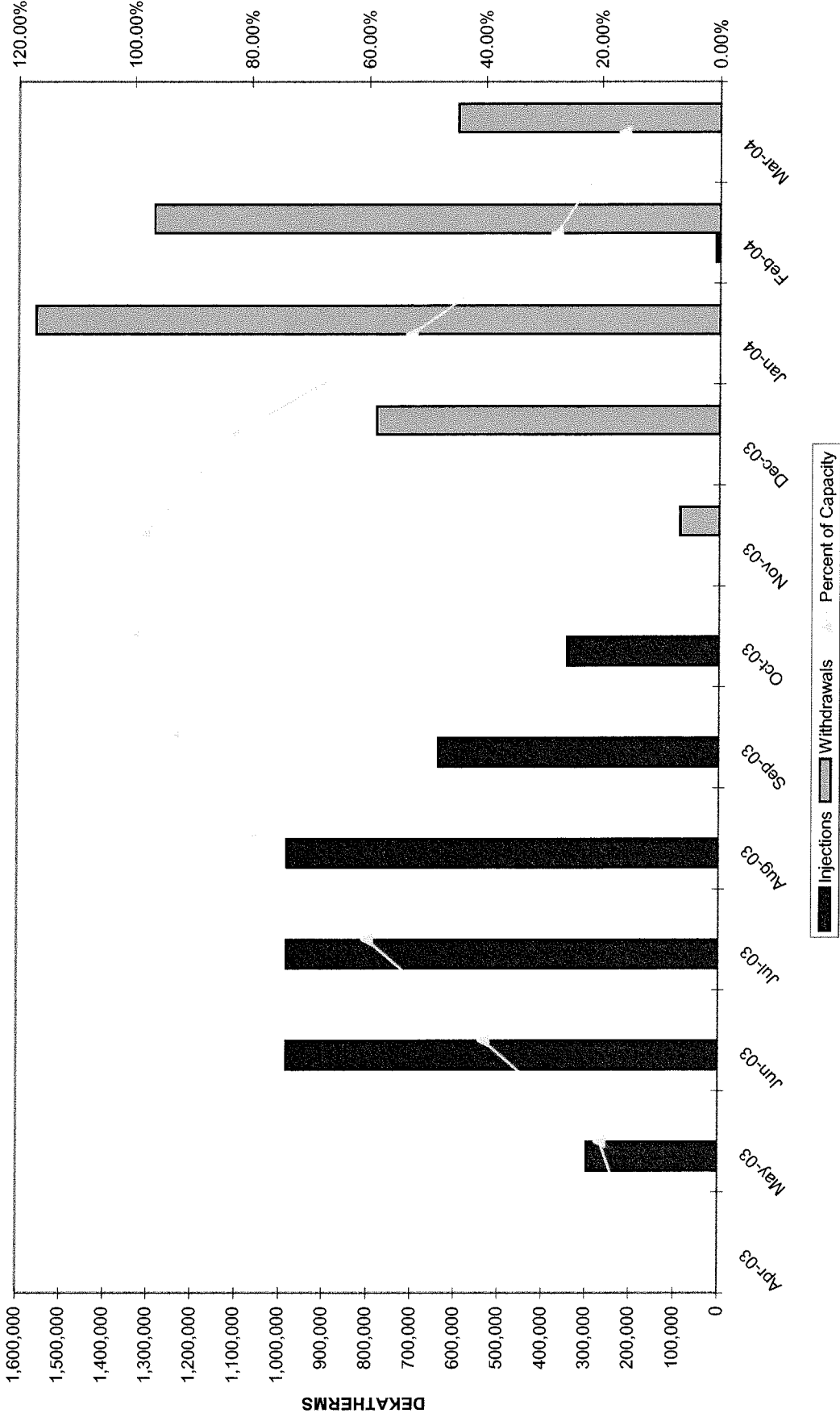
INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY



COLUMBIA GAS STORAGE ANALYSIS
CAPACITY, ENDING BALANCE & PRICE

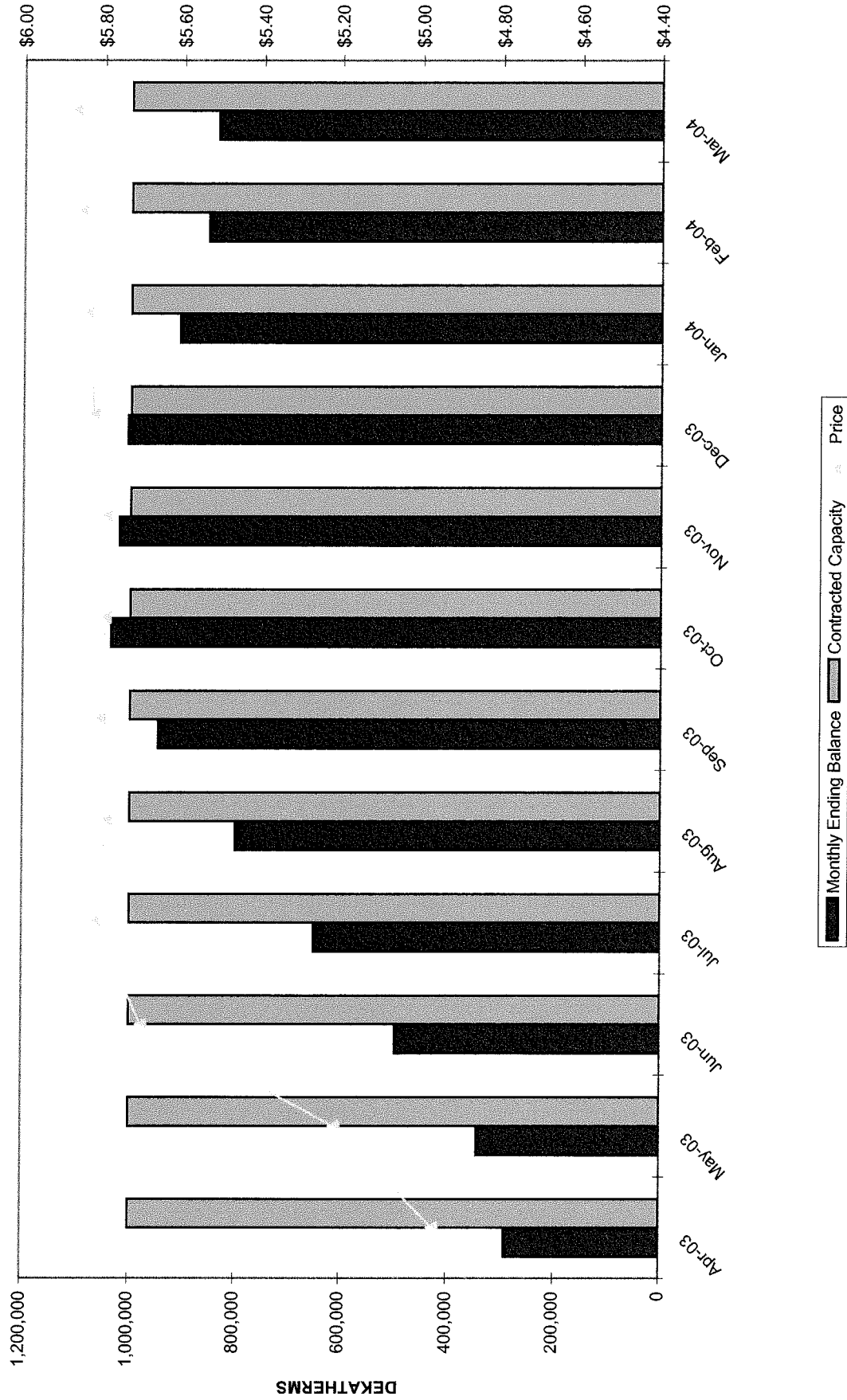


COLUMBIA GAS STORAGE ANALYSIS
INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY



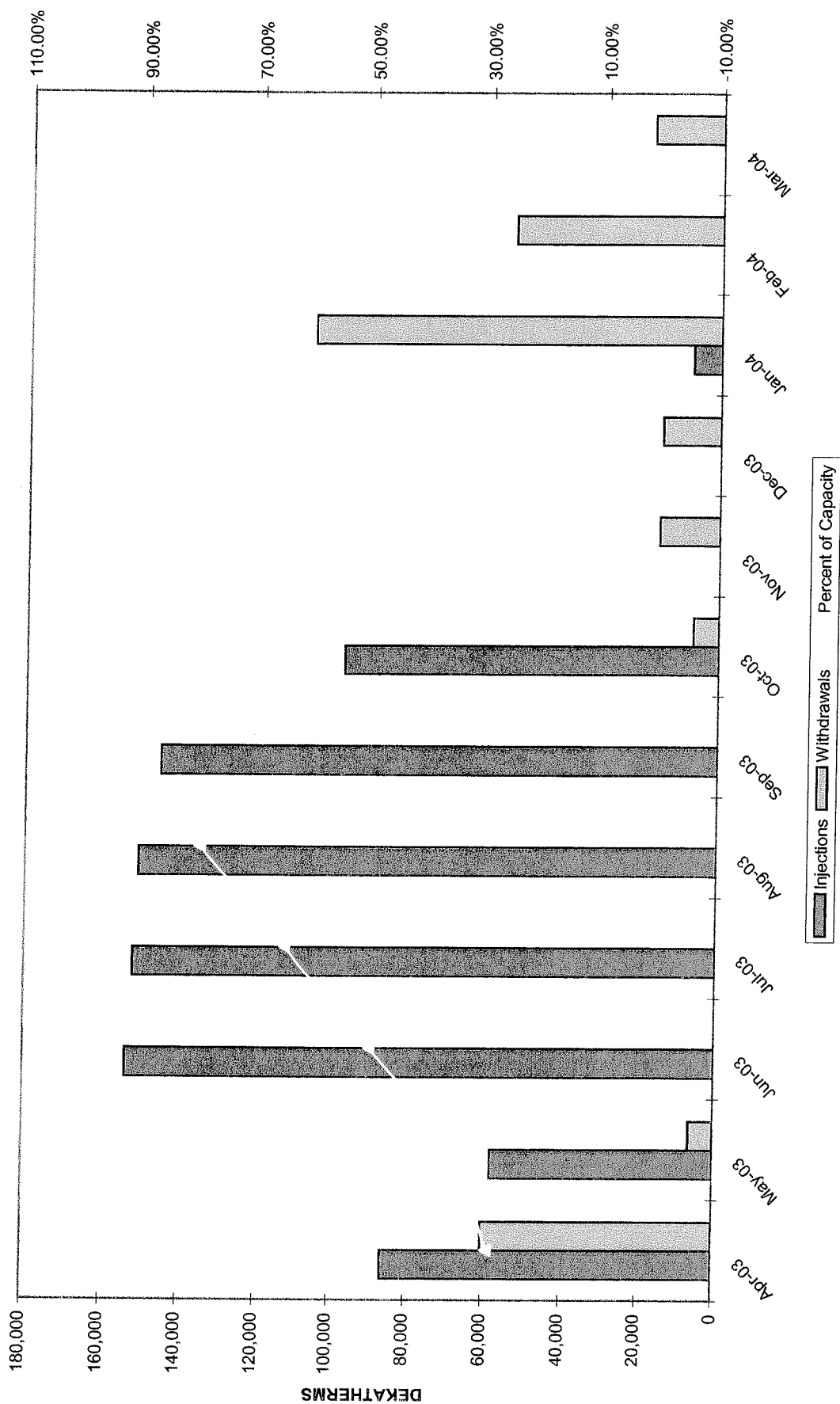
LIQUIFIED NATURAL GAS STORAGE ANALYSIS

CAPACITY, ENDING BALANCE & PRICE

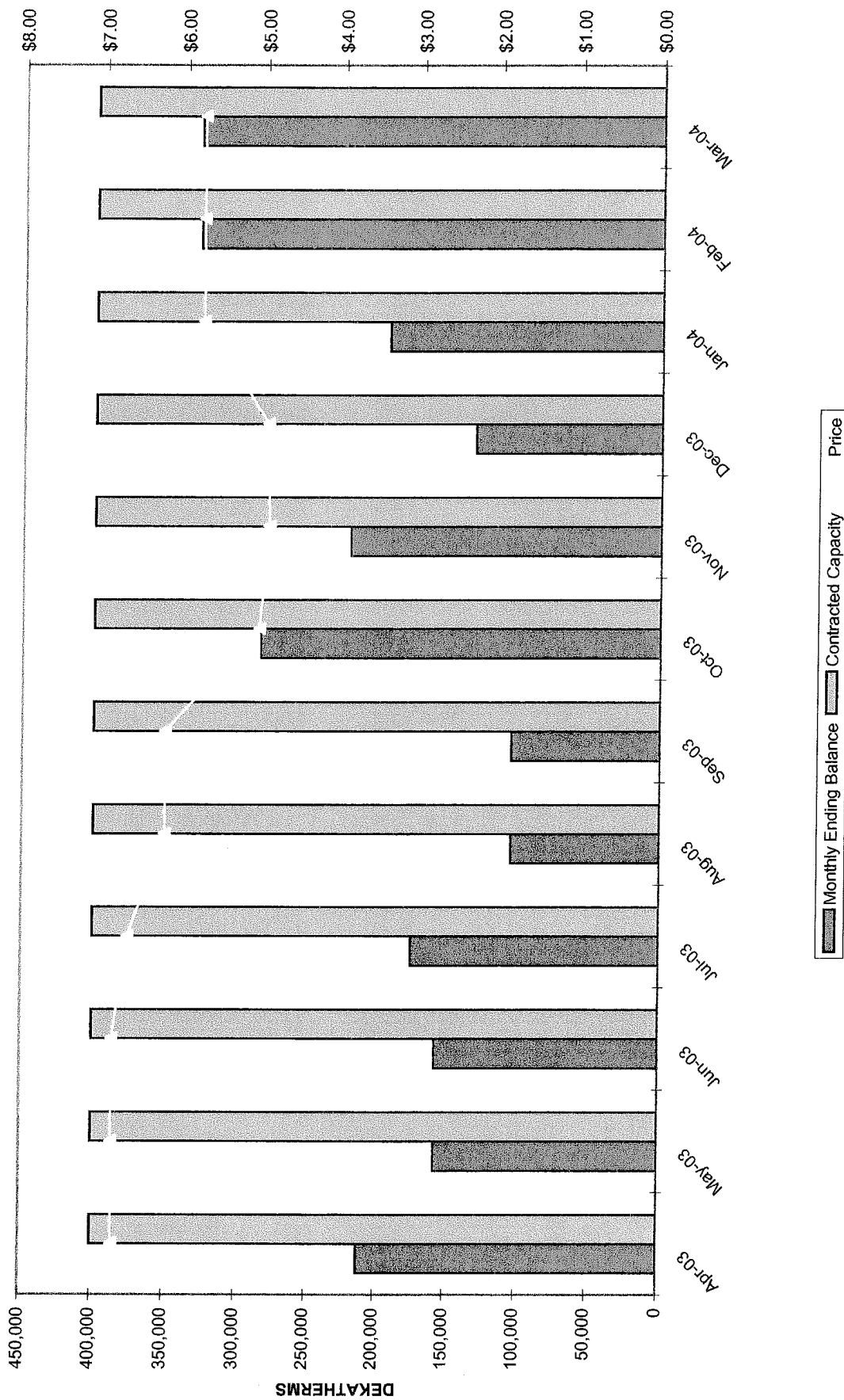


LIQUIFIED NATURAL GAS STORAGE ANALYSIS

INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY

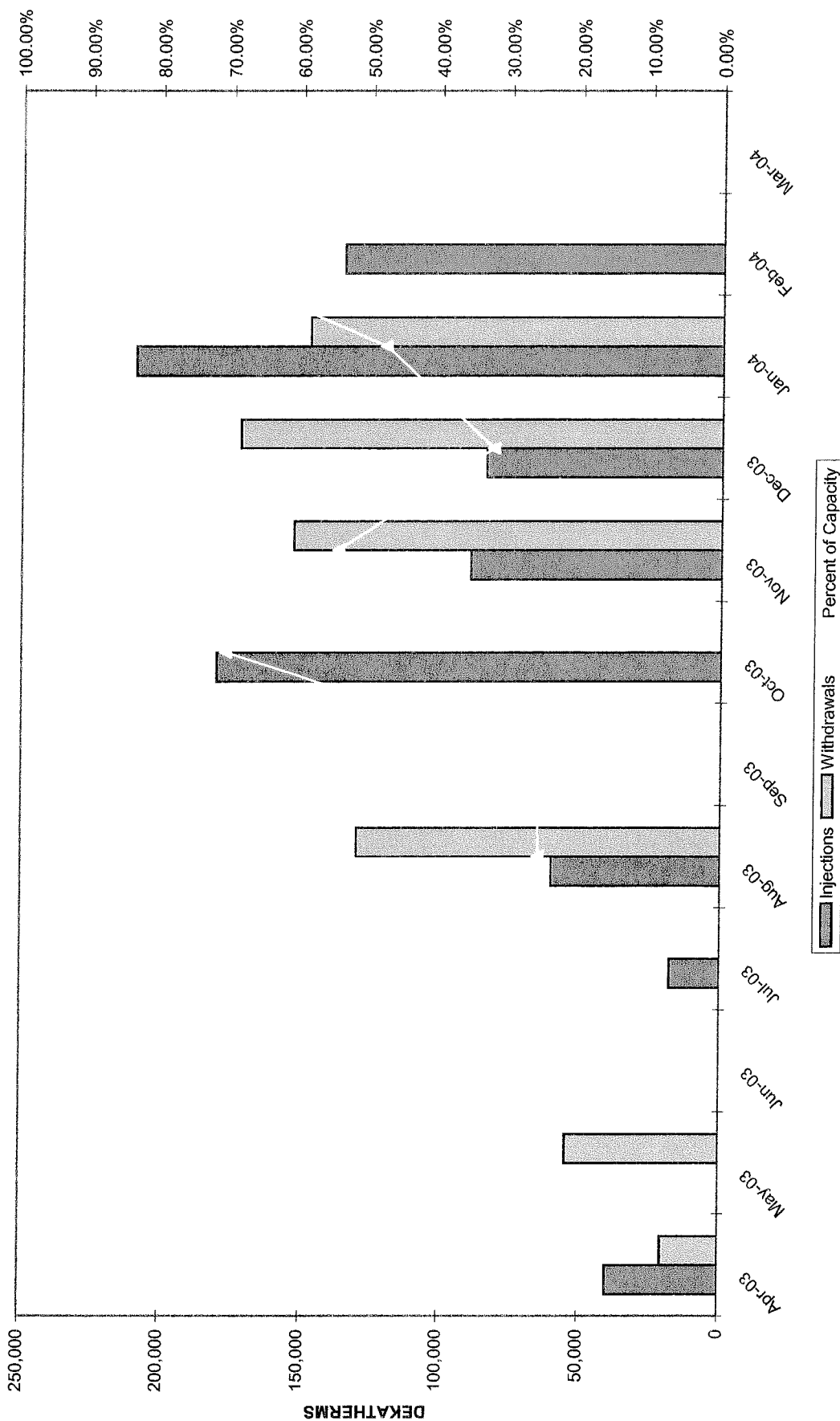


HATTIESBURG GAS STORAGE ANALYSIS CAPACITY, ENDING BALANCE & PRICE

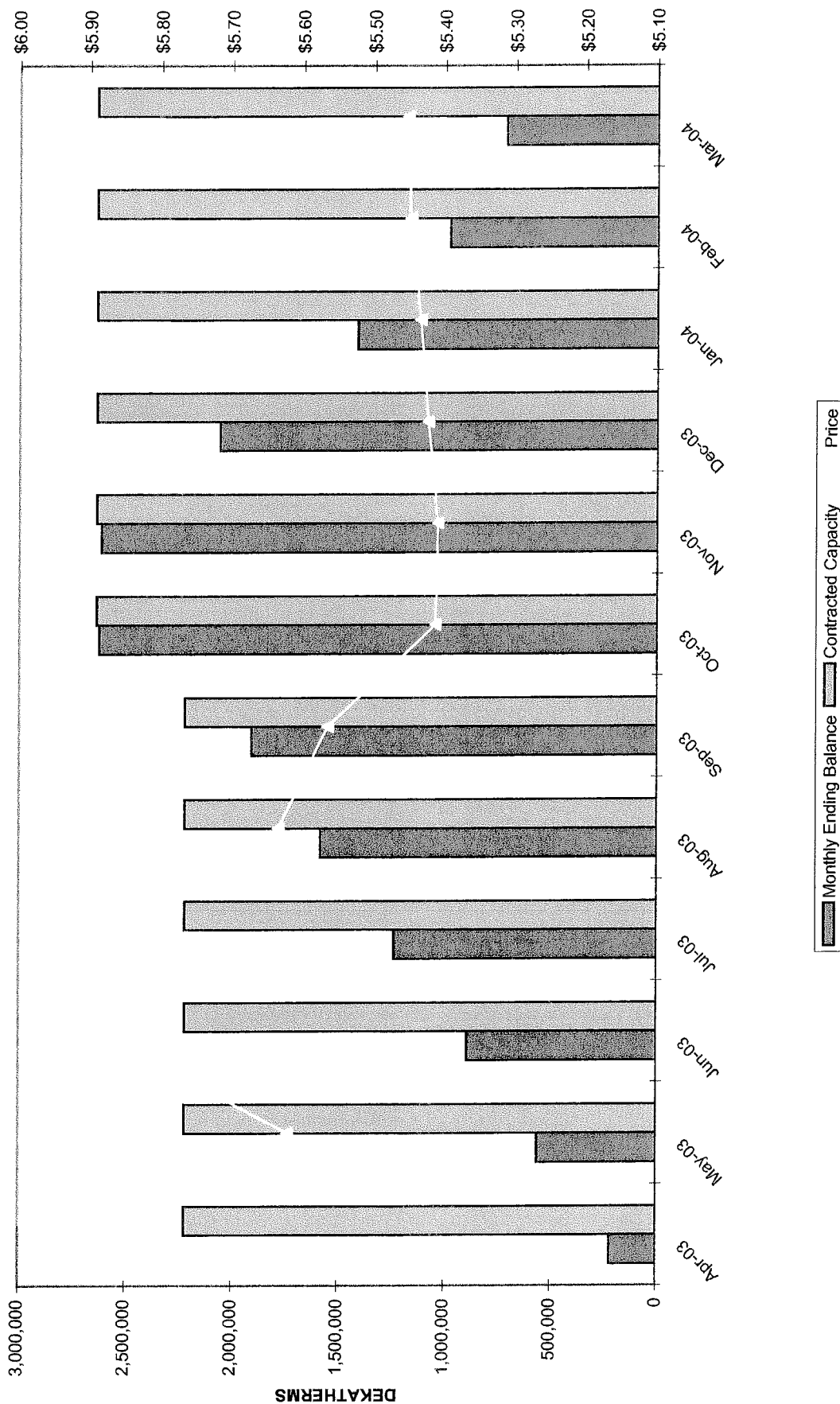


HATTIESBURG GAS STORAGE ANALYSIS

INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY



PINE NEEDLE LNG GAS STORAGE ANALYSIS CAPACITY, ENDING BALANCE & PRICE



PINE NEEDLE LNG GAS STORAGE ANALYSIS

INJECTIONS, WITHDRAWALS & ENDING BALANCE AS A PERCENT OF CAPACITY

